

BUSINESS SITUATION

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REAL gross domestic product (GDP) increased 5.3 percent in the second quarter of 2000, according to the "preliminary" estimates of the national income and product accounts (NIPAs), after increasing 4.8 percent in the first quarter (table 1 and chart 1); the "advance" second-quarter estimate of real GDP, reported in the August "Business Situation," had shown a 5.2-percent increase.¹ Among the major components, upward revisions to private nonfarm inventory investment and to exports of goods were partly offset by downward revisions to business investment in equipment and software and in structures and by an upward revision to imports of goods.²

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

2. Private inventory investment is shown as change in private inventories in the NIPAs. Business investment in equipment and software and in structures is shown as private nonresidential fixed investment in the NIPAs.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1999		2000	
	2000		1999			2000			
	II	III	IV	I	II	III	IV	I	II
Gross domestic product	9,311.5	122.6	178.3	107.7	119.7	5.7	8.3	4.8	5.3
Less: Exports of goods and services	1,119.7	25.0	25.8	16.4	34.9	10.2	10.3	6.3	13.5
Plus: Imports of goods and services	1,528.3	53.0	35.7	40.8	66.6	16.9	10.7	12.0	19.5
Equals: Gross domestic purchases	9,691.5	147.1	187.4	129.5	147.9	6.6	8.4	5.6	6.3
Less: Change in private inventories	79.3	26.0	41.8	-44.3	42.7	.....	.....	.....	.....
Nonfarm	72.9	29.4	29.5	-40.0	39.9	.....	.....	.....	.....
Farm	6.3	-3.9	12.9	-4.3	2.7	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	9,607.1	121.3	147.6	169.5	107.2	5.5	6.6	7.5	4.6
Personal consumption expenditures	6,258.2	73.6	87.2	112.5	44.7	5.0	5.9	7.6	2.9
Durable goods	886.7	15.7	25.6	46.4	-11.5	8.0	13.0	23.6	-5.0
Nondurable goods	1,860.5	21.1	32.0	26.7	15.7	4.9	7.4	6.0	3.4
Services	3,524.9	37.7	31.9	44.2	37.7	4.5	3.8	5.2	4.4
Private fixed investment	1,776.4	30.7	28.8	64.3	45.5	7.8	7.2	16.4	10.9
Nonresidential	1,412.6	35.0	29.3	63.5	47.3	11.8	9.5	21.0	14.6
Structures	277.2	-4.1	6.0	13.4	3.2	-6.2	9.7	22.3	4.8
Equipment and software	1,146.4	41.6	23.5	50.3	46.0	18.0	9.5	20.6	17.8
Residential	371.4	-2.9	.5	2.9	0	-3.1	.5	3.2	0
Government consumption expenditures and gross investment	1,583.9	17.9	31.7	-4.4	18.8	4.8	8.5	-1.1	4.9
Federal	558.4	8.9	17.1	-21.0	21.3	6.9	13.2	-14.2	16.9
National defense	354.6	10.1	10.5	-19.4	13.1	12.3	12.6	-19.8	16.3
Nondefense	203.6	-1.1	6.6	-1.7	8.2	-2.2	14.4	-3.3	17.9
State and local	1,025.2	8.9	14.8	16.2	-2.2	3.7	6.1	6.6	-9
Addendum: Final sales of domestic product	9,227.3	96.9	138.7	147.5	79.3	4.5	6.4	6.7	3.5

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in S.1. (See "Selected NIPA Tables," which begin on page D-2 in this issue.)

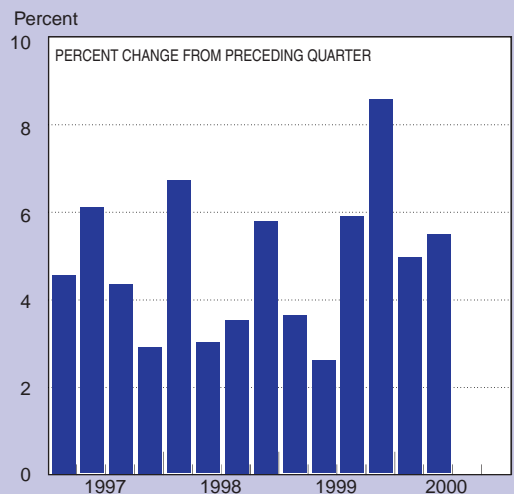
Real final sales of domestic product and real gross domestic purchases were revised down. The estimates of the increases in the price indexes for gross domestic purchases and for GDP were revised up slightly. (The sources of the revisions are discussed in the section "Revisions.")

The 5.3-percent increase in real GDP in the second quarter was the fourth consecutive increase above the 3.7-percent average annual growth rate over the current expansion, which began in the second quarter of 1991.

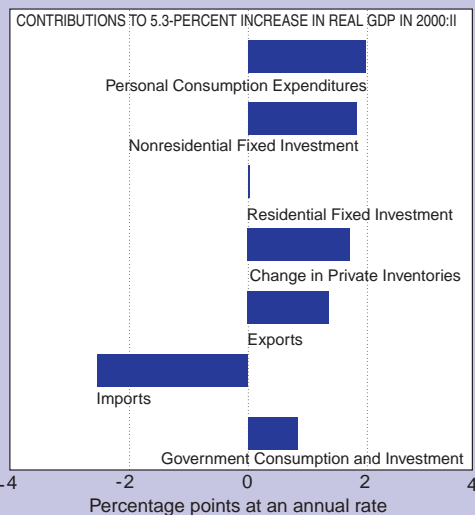
Overall, the picture of the economy in the second quarter presented by the preliminary estimates was similar to that presented by the advance

CHART 1

Real Gross Domestic Product



Based on Seasonally Adjusted Annual Rates



U.S. Department of Commerce, Bureau of Economic Analysis

estimates; however, revisions to some of the components of GDP were substantial. The preliminary estimates showed the following:

- Real GDP growth accelerated modestly in the second quarter. The acceleration was accounted for by upturns in private inventory investment and in Federal Government spending and by an acceleration in exports of goods.³ These changes were partly offset by decelerations in consumer spending and in business fixed investment, by an acceleration in imports of goods, and by a downturn in State and local government spending.⁴
- Real final sales of computers added 0.5 percentage point to the growth rate of real GDP in the second quarter and 0.6 percentage point in the first.
- Real final sales of domestic product decelerated, as private inventory investment turned up.⁵ The growth in real final sales of domestic product was 1.8 percentage points lower than the growth in real GDP in the second quarter, but it was 1.9 percentage points higher than the growth in real GDP in the first quarter.
- Real gross domestic purchases accelerated

3. Government spending is shown as government consumption expenditures and gross investment in the NIPAs.

4. Consumer spending is shown as personal consumption expenditures in the NIPAs.

5. Final sales of domestic product is calculated as GDP less change in private inventories.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

(Seasonally adjusted at annual rates)

	1999		2000	
	III	IV	I	II
Percent change at annual rate:				
Gross domestic product	5.7	8.3	4.8	5.3
Percentage points at annual rates:				
Personal consumption expenditures	3.43	4.08	5.03	2.03
Durable goods .....	.64	1.04	1.79	-.42
Nondurable goods .....	.97	1.47	1.19	.71
Services	1.81	1.58	2.04	1.74
Gross private domestic investment	2.50	3.04	.92	3.63
Fixed investment	1.33	1.26	2.68	1.87
Nonresidential	1.47	1.22	2.54	1.87
Structures	-.19	.29	.63	.15
Equipment and software	1.66	.94	1.91	1.72
Residential	-.13	.03	.14	0
Change in private inventories	1.17	1.78	-1.76	1.76
Net exports of goods and services	-1.08	-.37	-.94	-1.20
Exports	1.05	1.09	.67	1.40
Goods	1.13	.94	.46	1.36
Services	-.08	.15	.21	.04
Imports	-2.13	-1.45	-1.61	-2.60
Goods	-1.99	-1.28	-1.28	-2.27
Services	-.13	-.17	-.33	-.33
Government consumption expenditures and gross investment .....	.84	1.50	-.18	.86
Federal .....	.41	.79	-.93	.95
National defense .....	.46	.48	-.86	.58
Nondefense	-.05	.30	-.07	.37
State and local .....	.43	.71	.75	-.09

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

slightly more than real GDP, reflecting a faster acceleration in imports of goods and services than in exports of goods and services.⁶ Gross domestic purchases has grown faster than GDP for 6 consecutive quarters and for 12 of the past 13 quarters.

- The largest contributors to the second-quarter increase in real GDP were consumer spending, private inventory investment, business investment in equipment and software, and exports of goods (table 2 and [chart 1](#)). The increase in GDP was moderated by an increase in imports.

The price index for gross domestic purchases increased 2.3 percent in the second quarter after increasing 3.8 percent in the first (table 3). The slowdown was primarily accounted for by decelerations in the prices of personal consumption expenditures, mainly in the prices of energy goods and services, and in the prices of Federal Government consumption expenditures, primarily as a result of a Federal pay raise that increased prices in the first quarter. The price index for gross domestic purchases excluding food and energy prices, which are usually more volatile than many other

6. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as the sum of personal consumption expenditures, gross private domestic investment, and government consumption expenditures and gross investment; thus, gross domestic purchases includes imports of goods and services, which are subtracted in the calculation of GDP, and does not include exports of goods and services, which are added in the calculation of GDP.

Table 3.—Percent Changes in Prices

[Annual rates; based on seasonally adjusted index numbers (1996=100)]

	1999		2000	
	III	IV	I	II
Gross domestic product	1.1	1.6	3.3	2.6
Less: Exports of goods and services	1.1	2.7	1.9	1.9
Plus: Imports of goods and services	6.0	5.3	5.6	.1
Equals: Gross domestic purchases	1.7	1.9	3.8	2.3
Less: Change in private inventories .....	.....	.....	.....	.....
Equals: Final sales to domestic purchasers	1.7	2.0	3.8	2.3
Personal consumption expenditures	1.9	2.2	3.5	2.3
Food	2.1	2.3	2.4	2.3
Energy goods and services ¹	13.5	11.7	35.1	13.4
Other personal consumption expenditures	1.3	1.7	2.2	1.7
Private nonresidential fixed investment	-1.5	-.8	1.8	1.8
Structures	2.9	3.6	4.7	3.7
Equipment and software	-2.9	-2.1	.9	1.2
Private residential fixed investment	3.4	2.6	5.2	2.6
Government consumption expenditures and gross investment	3.1	3.0	6.4	2.8
Federal	1.9	2.2	7.7	1.0
National defense	2.0	2.4	7.1	1.2
Nondefense	1.8	1.9	8.9	.6
State and local	3.8	3.5	5.7	3.8
Addendum: Gross domestic purchases less food and energy	1.1	1.5	2.8	1.9

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

NOTE.—Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

prices, increased 1.9 percent after increasing 2.8 percent.

GDP prices increased 2.6 percent in the second quarter after increasing 3.3 percent in the first. The larger second-quarter increase in GDP prices than in gross domestic purchases prices reflected a larger increase in export prices than in import prices.

Real disposable personal income (DPI) increased 3.3 percent in the second quarter after increasing 1.9 percent in the first. The personal saving rate—personal saving as a percentage of current-dollar DPI—was 0.2 percent, the same as in the first quarter; these are the lowest rates since 1946—the first year for which quarterly estimates are available. The national saving rate—gross saving as a percentage of gross national product—increased to 18.4 percent from 18.2 percent; the national saving rate has ranged from 18.2 percent to 18.4 percent for the last five quarters after ranging from 18.7 percent to 19.0 percent for the preceding five quarters.

Personal consumption expenditures

Real personal consumption expenditures (PCE) increased 2.9 percent in the second quarter after increasing 7.6 percent in the first (table 4 and chart 2). The second-quarter increase was the first increase below 3.8 percent—the average annual growth rate for PCE over the current expansion—since the 3.3-percent increase in the fourth quarter of 1997. The sharp second-quarter slow-

down was accounted for by a downturn in durable goods and by slowdowns in nondurable goods and

CHART 2

Real Personal Consumption Expenditures

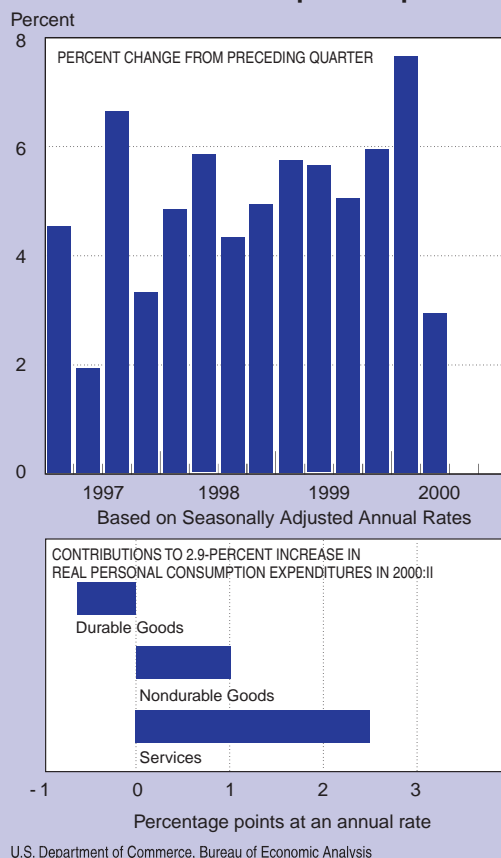


Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	2000	Change from preceding quarter				1999		2000	
		1999		2000					
		II	III	IV	I	III	IV	I	II
Personal consumption expenditures	6,258.2	73.6	87.2	112.5	44.7	5.0	5.9	7.6	2.9
Durable goods	886.7	15.7	25.6	46.4	-11.5	8.0	13.0	23.6	-5.0
Motor vehicles and parts	335.9	-4	6.0	20.9	-15.9	-6	7.7	27.7	-16.8
Of which: New autos	105.3	-1.3	5.1	5.6	-3.7	-5.1	22.4	23.6	-13.0
New light trucks	100.6	1.5	.2	10.3	-7.8	6.1	.9	49.2	-25.7
Furniture and household equipment	379.4	12.2	14.3	15.9	5.3	15.5	17.7	19.1	5.7
Other	174.9	4.8	6.0	9.1	.9	13.1	15.8	24.1	2.1
Nondurable goods	1,860.5	21.1	32.0	26.7	15.7	4.9	7.4	6.0	3.4
Food	876.6	8.7	19.3	6.2	4.4	4.2	9.4	2.9	2.1
Clothing and shoes	342.3	5.6	0	15.6	4.6	7.3	-1	20.9	5.6
Gasoline, fuel oil, and other energy goods	146.7	-4	1.9	-5.7	.9	-1.2	5.1	-14.0	2.3
Other	496.7	7.2	10.2	11.9	6.1	6.3	9.0	10.3	5.1
Services	3,524.9	37.7	31.9	44.2	37.7	4.5	3.8	5.2	4.4
Housing	846.9	5.0	5.8	4.9	5.5	2.5	-2.8	2.4	2.7
Household operation	373.1	8.8	-5.4	5.4	8.4	10.2	-5.8	6.1	9.5
Electricity and gas	134.7	5.3	-7.8	2.3	4.7	17.3	-20.9	7.2	15.4
Other household operation	238.1	3.5	2.1	3.2	3.7	6.4	3.8	5.6	6.4
Transportation	249.9	3.0	2.3	2.5	2.4	5.2	3.7	4.2	3.9
Medical care	903.8	7.5	7.2	4.6	6.4	3.5	3.3	2.1	2.9
Recreation	232.2	3.8	2.1	5.1	4.9	7.2	3.9	9.6	9.0
Other	917.8	9.9	19.1	21.3	10.4	4.7	9.1	9.9	4.7

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

in services.

The slowdown in PCE occurred despite generally favorable developments in factors frequently considered in analyses of consumer spending (chart 3). As mentioned earlier, real DPI increased 3.3 percent after increasing 1.9 percent. The unemployment rate decreased to 4.0 percent from 4.1 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center as a measure of consumer attitudes and expectations) decreased somewhat but remained at a high level.

Expenditures for durable goods decreased 5.0 percent in the second quarter after jumping 23.6 percent in the first. Motor vehicles and parts turned down; the downturn was largely accounted for by trucks, but autos and recreational vehicles also turned down. Furniture and household equipment and "other" durable goods increased less in the second quarter than in the first.⁷

7. "Other" durable goods includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

Expenditures for nondurable goods increased 3.4 percent after increasing 6.0 percent. The deceleration reflected slowdowns in clothing and shoes, in "other" nondurable goods, and in food.⁸ In contrast, gasoline, fuel oil, and other energy goods turned up.

Expenditures for services increased 4.4 percent after increasing 5.2 percent. The slowdown was more than accounted for by "other" services, primarily reflecting a downturn in brokerage and investment counseling.⁹ In contrast, household operations and medical care accelerated; the step-up in household operations reflected a step-up in electricity and gas.

Private fixed investment

Real private fixed investment increased 10.9 percent in the second quarter after jumping 16.4 percent in the first (table 5 and chart 4). Nonresidential fixed investment decelerated, and residen-

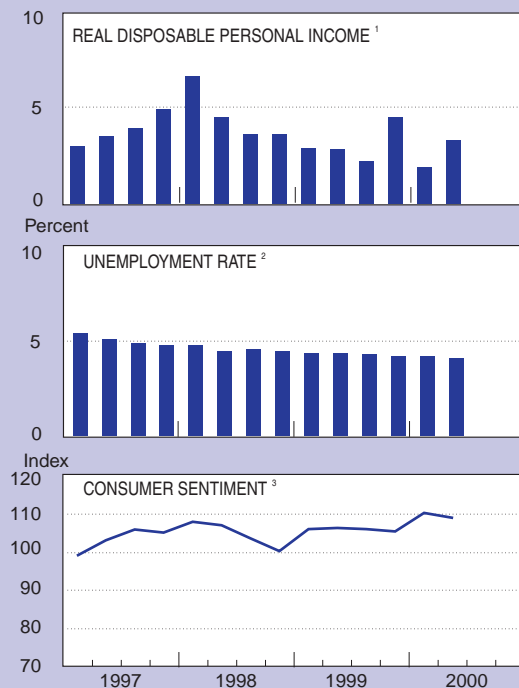
8. "Other" nondurable goods includes tobacco, toilet articles, drug preparations and sundries, stationary and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

9. "Other" services includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

CHART 3

Selected Factors Affecting Consumer Spending

Percent change



1. Based on seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

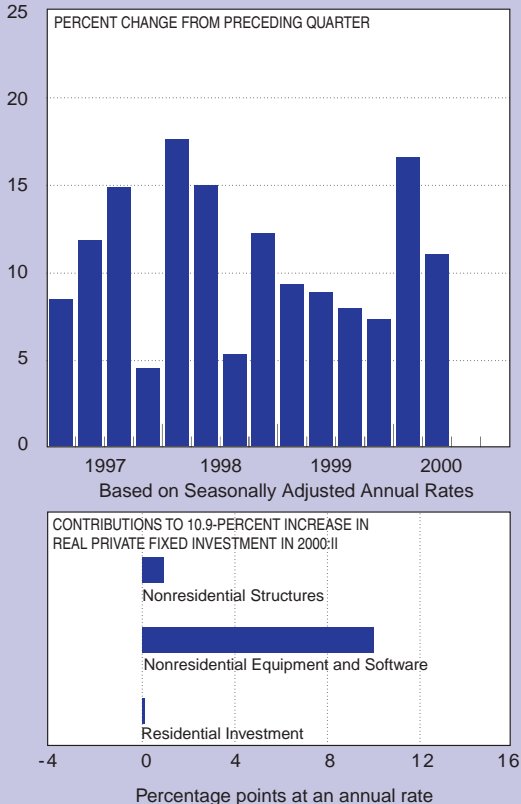
3. Data: University of Michigan's Survey Research Center

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CHART 4

Real Private Fixed Investment

Percent



U.S. Department of Commerce, Bureau of Economic Analysis

tial investment was unchanged after an increase.

Nonresidential fixed investment.—Real private nonresidential fixed investment increased 14.6 percent in the second quarter after jumping 21.0 percent in the first. Structures decelerated sharply, and equipment and software decelerated moderately.

Over the past four quarters, nonresidential fixed investment increased 14.1 percent, somewhat more than the 9.4-percent average annual rate of increase over the current expansion. Many of the factors that affect investment spending have shown strength over the past four quarters: Real final sales of domestic product increased 5.3 percent, domestic corporate profits increased 13.9 percent, and the capacity utilization rate increased to 82.2 percent from 80.5 percent (chart 5). In contrast, long-term interest rates increased; for example, the yield on high-grade corporate bonds increased to 7.70 percent in the second quarter of 2000 from 6.88 percent in the second quarter of 1999.

Investment in nonresidential structures increased 4.8 percent in the second quarter after jumping 22.3 percent in the first. The slowdown was accounted for by a deceleration in nonresidential buildings and by a downturn in utilities.

Investment in equipment and software jumped 17.8 percent in the second quarter after jumping 20.6 percent in the first. The modest slowdown was accounted for by slowdowns in “other” infor-

mation processing equipment, in “other” equipment, and in industrial equipment and by a downturn in transportation equipment that was more than accounted for by motor vehicles.¹⁰ In contrast, computers and peripheral equipment and software each accelerated.

Residential investment.—Real private residential investment was unchanged in the second quarter after increasing 3.2 percent in the first (table 5).

Single-family structures decreased 6.5 percent after increasing 15.6 percent, and multifamily structures increased 4.8 percent after increasing 14.7 percent. “Other” residential structures increased 8.5 percent after decreasing 13.9 percent; an upturn in brokers’ commissions on home sales more than offset a downturn in home improvements.¹¹

Inventory investment

Real inventory investment increased \$42.7 billion in the second quarter, as inventory accumulation stepped up to \$79.3 billion from \$36.6 billion; in-

10. “Other information processing equipment” includes communication equipment, instruments, photocopy and related equipment, and office and accounting equipment.

“Other” equipment includes furniture and fixtures, agricultural and construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not included in other categories.

11. “Other” residential structures includes home improvements, new manufactured home sales, brokers’ commissions on home sales, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

Table 5.—Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
	2000		1999		2000	1999		2000	
	II	III	IV	I	II	III	IV	I	II
Private fixed investment	1,776.4	30.7	28.8	64.3	45.5	7.8	7.2	16.4	10.9
Nonresidential	1,412.6	35.0	29.3	63.5	47.3	11.8	9.5	21.0	14.6
Structures	277.2	-4.1	6.0	13.4	3.2	-6.2	9.7	22.3	4.8
Nonresidential buildings, including farm	199.3	-4.5	1.9	11.4	2.8	-9.1	4.0	27.1	5.8
Utilities	43.3	.4	.4	.9	-1.6	3.9	3.9	8.6	-13.6
Mining exploration, shafts, and wells	28.4	.7	3.3	1.5	2.3	13.3	78.2	27.0	40.9
Other structures	6.4	-8	.4	-6	-5	-32.4	22.0	-27.2	-25.7
Equipment and software	1,146.4	41.6	23.5	50.3	46.0	18.0	9.5	20.6	17.8
Information processing equipment and software	671.6	34.2	26.8	41.5	42.2	28.7	20.5	31.4	29.6
Computers and peripheral equipment ¹	299.0	22.4	12.9	20.3	34.9	50.6	24.2	37.8	64.2
Software ²	226.2	11.4	12.8	9.7	11.2	27.6	29.3	20.3	22.6
Other	196.2	6.8	3.5	15.7	8.9	17.9	8.7	41.9	20.4
Industrial equipment	164.2	3.2	3.9	6.1	5.3	9.3	10.8	16.9	14.0
Transportation equipment	197.2	10.1	-3.2	1.4	-1	23.2	-6.3	2.9	-2
Of which: Motor vehicles	158.8	10.2	-3.6	4.4	-8.0	28.7	-8.4	11.4	-17.8
Other	141.2	-2.9	-5	5.2	3.2	-8.3	-1.4	16.6	9.7
Residential	371.4	-2.9	.5	2.9	0	-3.1	.5	3.2	0
Structures	361.7	-3.1	.4	2.6	-1	-3.4	.4	2.9	-1
Single-family	192.5	-2.9	3.2	7.0	-3.3	-6.0	7.1	15.6	-6.5
Multifamily	24.0	.2	-3	.8	.2	3.4	-5.1	14.7	4.8
Other structures ³	145.0	-3	-2.6	-5.5	3.0	-1.0	-6.7	-13.9	8.5
Equipment	9.8	.2	.1	.4	.1	7.5	6.8	16.4	2.3

1. Includes new computers and peripheral equipment only.

2. Excludes software “embedded,” or bundled, in computers and other equipment.

3. Other structures includes home improvements, new manufactured home sales, brokers’ commissions on home purchases of used structures, and other residential structures (which consists

primarily of dormitories and of sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

ventory investment had decreased \$44.3 billion in the first quarter (table 6 and chart 6).

The second-quarter increase in inventory investment was mainly accounted for by a \$27.0 billion increase in investment at the retail level and by an \$11.2 billion increase at the wholesale level.

The stock of retail inventories increased \$22.6 billion after decreasing \$4.4 billion. Inventories of durable-goods retailers increased \$16.1 billion after decreasing \$3.6 billion; about three-fourths of the upswing was accounted for by inventories of motor vehicle dealers. Inventories of nondurable-goods retailers increased \$6.7 billion after decreasing \$0.8 billion.

The stock of wholesale inventories increased \$32.7 billion after increasing \$21.5 billion. Inven-

tories of merchant wholesalers increased \$29.3 billion after increasing \$16.2 billion. Most of the step-up was accounted for by durable goods, notably by professional and commercial equipment and by machinery equipment.

The stock of manufacturing inventories increased \$15.8 billion after increasing \$10.3 billion. Inventories of durable-goods manufacturers increased \$10.5 billion after increasing \$6.5 billion. In most durable-goods industries, inventories increased more than in the first quarter; these step-ups were partly offset by a substantial downswing in transportation-equipment manufacturing that was more than accounted for by aircraft manufacturing. Inventories of nondurable-goods manufacturers increased \$5.3 billion after increasing \$3.8 billion; the step-up mainly reflected an upturn in chemical manufacturing that was partly offset by a downturn in food manufacturing.

"Other" nonfarm inventories increased \$2.1 billion after increasing \$6.1 billion.¹²

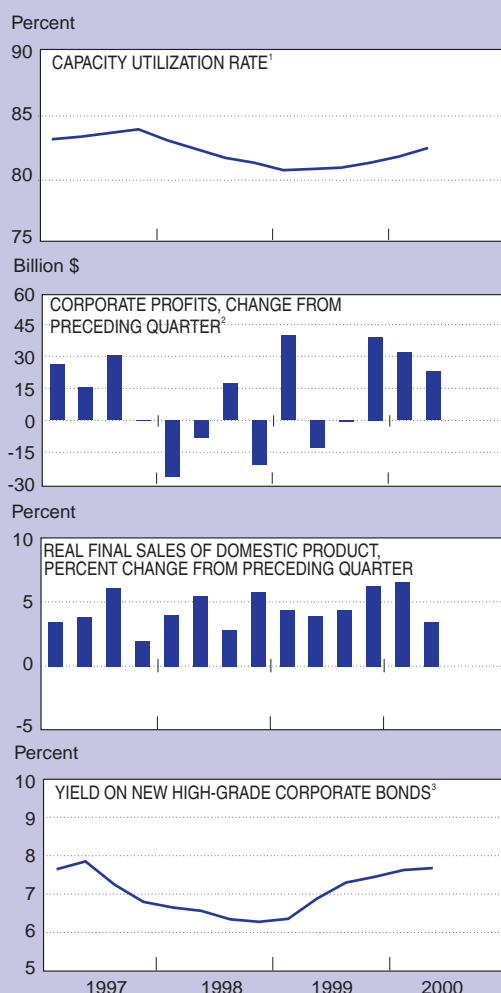
Farm inventories increased \$6.3 billion after increasing \$3.6 billion. Crop inventories accounted for the increase in both quarters.

In the second quarter, the ratio of real private nonfarm inventories to real final sales of domestic businesses increased to 2.07 from 2.06; the inventory-sales ratio that includes only final sales of goods and structures increased to 3.60 from 3.57 (see NIPA table 5.13).¹³ The first-quarter levels of

12. "Other" nonfarm inventories includes inventories held by establishments in the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

CHART 5

Selected Factors Affecting Nonresidential Investment



1. All industries. Data: Federal Reserve Board

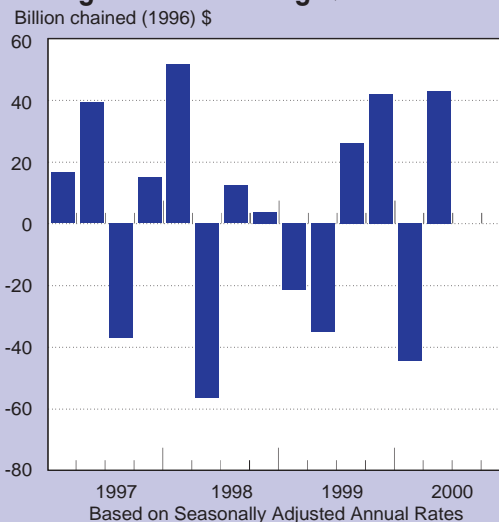
2. Domestic industries.

3. Data: U.S. Treasury Department

U.S. Department of Commerce, Bureau of Economic Analysis

CHART 6

Real Private Inventory Investment: Change from Preceding Quarter



U.S. Department of Commerce, Bureau of Economic Analysis

both ratios were the lowest since 1966.

Exports and imports

Real exports of goods and services increased 13.5 percent in the second quarter after increasing 6.3 percent in the first; exports of goods accelerated, and exports of services decelerated (table 7). Real

imports of goods and services jumped 19.5 percent after increasing 12.0 percent; imports of goods accelerated, and imports of services increased nearly as much as in the first quarter.

Exports of goods jumped 18.9 percent after increasing 6.0 percent (chart 7). The acceleration was more than accounted for by a sharp step-up in nonautomotive capital goods, but industrial supplies and materials also contributed. In contrast, automotive vehicles, engines, and parts, "other" goods, and foods, feeds, and beverages turned down, and nonautomotive consumer goods slowed.

13. Use of the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, use of the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

Table 6.—Real Change in Private Inventories

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

	Level					Change from preceding quarter			
	1999			2000		1999		2000	
	II	III	IV	I	II	III	IV	I	II
Change in private inventories	13.1	39.1	80.9	36.6	79.3	26.0	41.8	-44.3	42.7
Farm	-1.1	-5.0	7.9	3.6	6.3	-3.9	12.9	-4.3	2.7
Nonfarm	14.1	43.5	73.0	33.0	72.9	29.4	29.5	-40.0	39.9
Manufacturing	-9.5	3.5	7.6	10.3	15.8	13.0	4.1	2.7	5.5
Durable goods	-8.1	3.3	3.3	6.5	10.5	11.4	0	3.2	4.0
Nondurable goods	-1.4	.2	4.2	3.8	5.3	1.6	4.0	-4	1.5
Wholesale trade	15.1	23.0	18.5	21.5	32.7	7.9	-4.5	3.0	11.2
Durable goods	13.8	12.5	15.2	17.3	24.4	-1.3	2.7	2.1	7.1
Nondurable goods	1.4	10.5	3.4	4.4	8.4	9.1	-7.1	1.0	4.0
Retail trade	4.1	15.7	41.7	-4.4	22.6	11.6	26.0	-46.1	27.0
Durable goods	1.0	13.0	27.7	-3.6	16.1	12.0	14.7	-31.3	19.7
Of which: Motor vehicle dealers	-4.6	9.7	14.7	-6.4	9.5	14.3	5.0	-21.1	15.9
Nondurable goods	3.0	2.9	14.2	-8	6.7	-1	11.3	-15.0	7.5
Other	4.2	1.1	4.2	6.1	2.1	-3.1	3.1	1.9	-4.0
Durable goods	-1.4	-3	1.9	1.3	-1.5	1.1	2.2	-6	-2.8
Nondurable goods	5.7	1.4	2.2	4.8	3.6	-4.3	.8	2.6	-1.2
Addenda:									
Motor vehicles	1.1	9.1	14.4	-2.0	14.7	8.0	5.3	-16.4	16.7
Autos	-6.9	1.8	4.7	.4	2.4	8.7	2.9	-4.3	2.0
Trucks	6.8	6.8	9.1	-2.1	11.2	0	2.3	-11.2	13.3

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11 and 8.9B (motor vehicles).

Table 7.—Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1999		2000	
	2000		1999		2000	III		IV	
	II	III	IV	I	II	III	IV	I	II
Exports of goods and services	1,119.7	25.0	25.8	16.4	34.9	10.2	10.3	6.3	13.5
Exports of goods ¹	833.3	27.7	23.1	11.6	35.2	15.9	12.6	6.0	18.9
Foods, feeds, and beverages	59.0	4.1	-1.4	1.0	-4	33.0	-8.8	6.4	-2.3
Industrial supplies and materials	165.9	2.4	7.3	1.3	4.2	6.4	20.5	3.5	10.6
Capital goods, except automotive	395.5	18.4	7.8	2.8	34.3	24.1	9.2	3.2	43.7
Automotive vehicles, engines, and parts	78.3	2.1	-2	2.6	-3	12.2	-9	14.3	-1.8
Consumer goods, except automotive	88.0	1.2	2.7	3.5	1.4	6.0	14.1	17.9	6.7
Other	47.9	.2	6.3	.1	-2.8	1.3	70.7	.7	-20.1
Exports of services ¹	289.2	-1.8	3.2	4.8	.7	-2.5	4.6	6.9	1.0
Imports of goods and services	1,528.3	53.0	35.7	40.8	66.6	16.9	10.7	12.0	19.5
Imports of goods ¹	1314.0	50.6	32.0	32.8	58.7	19.0	11.2	11.2	20.1
Foods, feeds, and beverages	48.8	1.2	.3	-1	1.5	10.6	2.6	-3	12.8
Industrial supplies and materials, except petroleum and products	165.4	4.5	5.5	2.0	-1.3	12.0	14.6	4.9	-3.0
Petroleum and products	88.4	-1.3	-7.6	5.2	6.7	-5.8	-31.5	30.3	37.1
Capital goods, except automotive	453.6	19.1	16.8	13.9	33.7	22.4	18.3	14.4	36.2
Automotive vehicles, engines, and parts	191.8	11.7	1.0	4.9	1.2	30.0	2.2	11.1	2.5
Consumer goods, except automotive	288.2	11.1	9.5	8.7	17.7	19.7	16.0	13.9	28.9
Other	82.2	3.9	8.3	-2.0	2.0	23.9	53.2	-9.2	10.0
Imports of services ¹	216.4	3.0	3.9	7.8	8.0	6.3	8.2	16.6	16.3

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

Exports of services increased 1.0 percent after increasing 6.9 percent. The slowdown was largely accounted for by a downturn in "other private services," but passenger fares also contributed.¹⁴

Imports of goods jumped 20.1 percent after increasing 11.2 percent (chart 8). The acceleration was largely accounted for by step-ups in nonautomotive capital goods and in nonautomotive consumer goods, but upturns in "other" goods and in foods, feeds, and beverages and a step-up in petroleum and products also contributed.

Imports of services increased 16.3 percent after increasing 16.6 percent. A step-up in travel was offset by slowdowns in direct defense expenditures

and in "other transportation."

Government spending

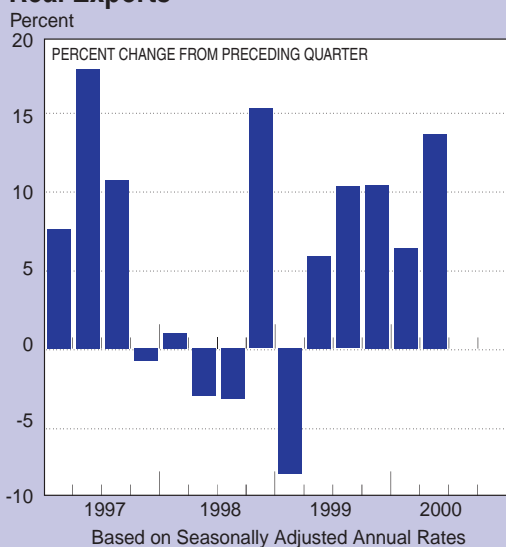
Real government spending increased 4.9 percent in the second quarter after decreasing 1.1 percent in the first (table 8 and chart 9). An upturn in Federal Government spending more than offset a downturn in State and local government spending.

Federal defense spending jumped 16.3 percent after falling 19.8 percent. Consumption spending increased sharply after decreasing, reflecting an upturn in services other than compensation of employees. Investment spending also increased after decreasing, reflecting an upturn in equipment and software.

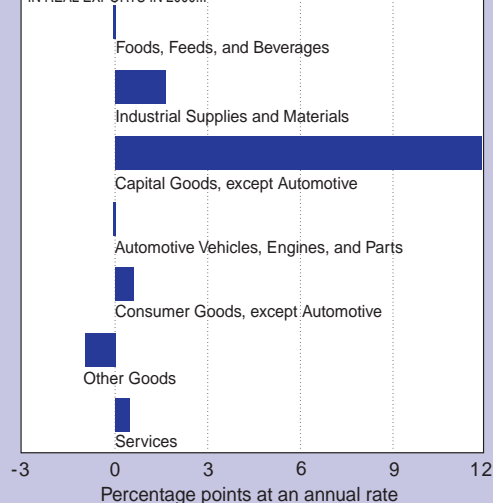
Federal nondefense spending jumped 17.9 percent after decreasing 3.3 percent. Consumption

CHART 7

Real Exports



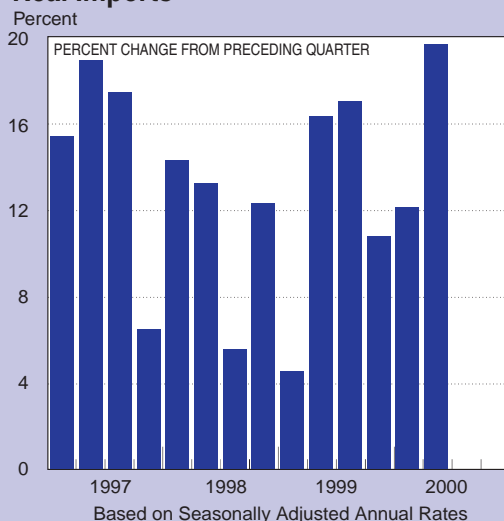
CONTRIBUTIONS TO 13.5-PERCENT INCREASE IN REAL EXPORTS IN 2000:II



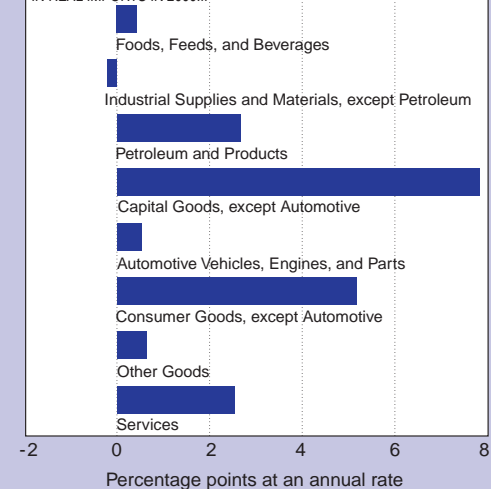
U.S. Department of Commerce, Bureau of Economic Analysis

CHART 8

Real Imports



CONTRIBUTIONS TO 19.5-PERCENT INCREASE IN REAL IMPORTS IN 2000:II



U.S. Department of Commerce, Bureau of Economic Analysis

spending increased considerably more in the second quarter than in the first; the acceleration largely reflected a step-up in compensation of employees, which reflected an increase in employment associated with the 2000 Decennial Census. Investment spending increased after decreasing, reflecting an upturn in equipment and software.

State and local government spending decreased 0.9 percent after increasing 6.6 percent. Investment spending decreased after increasing; the downturn was accounted for by structures, primarily highways and educational structures. Consumption spending increased less than in the first quarter.

Revisions

The preliminary estimate of a 5.3-percent increase in real GDP in the second quarter is 0.1 percentage point higher than the advance estimate (table 9); for 1978-99, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

Upward revisions to private inventory investment and to exports of goods were partly offset by a downward revision to private nonresidential investment in equipment and software and in structures and by an upward revision to imports of goods.

The upward revision to inventory investment primarily reflected the incorporation of newly available Census Bureau data on inventories for June and revised data for May.

The upward revisions to exports and imports of goods primarily reflected the incorporation of newly available Census Bureau data on trade in goods for June and revised data for May.

The downward revision to private nonresidential investment in equipment and software primarily reflected the incorporation of newly available

Census Bureau data on aircraft shipments for June. The downward revision to private nonresidential investment in structures reflected the incorporation of newly available Census Bureau data on construction put in place for June and revised data for April and May.

CHART 9

Real Government Consumption and Investment

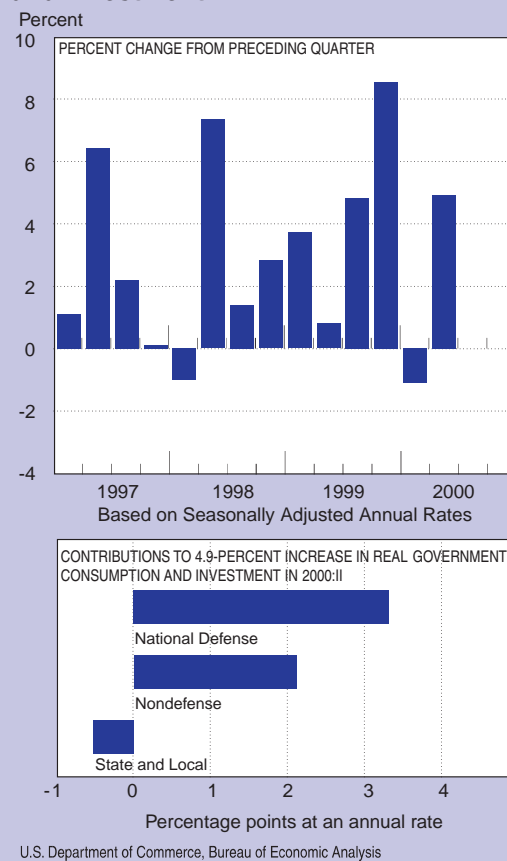


Table 8.—Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter				1999		2000	
	2000	1999		2000					
	II	III	IV	I	II	III	IV	I	II
Government consumption expenditures and gross investment ¹	1,583.9	17.9	31.7	-4.4	18.8	4.8	8.5	-1.1	4.9
Federal	558.4	8.9	17.1	-21.0	21.3	6.9	13.2	-14.2	16.9
National defense	354.6	10.1	10.5	-19.4	13.1	12.3	12.6	-19.8	16.3
Consumption expenditures	297.9	7.7	9.9	-18.3	12.2	11.2	14.2	-22.0	18.4
Gross investment	57.0	2.3	.6	-9	.7	18.4	4.1	-6.1	5.1
Nondefense	203.6	-1.1	6.6	-1.7	8.2	-2.2	14.4	-3.3	17.9
Consumption expenditures	155.6	.2	2.1	1.1	5.6	.6	6.0	3.0	15.8
Gross investment	48.7	-1.3	4.7	-3.1	2.7	-11.4	49.5	-22.4	25.6
State and local	1,025.2	8.9	14.8	16.2	-2.2	3.7	6.1	6.6	-9
Consumption expenditures	815.0	6.4	6.1	6.1	5.2	3.3	3.1	3.1	2.6
Gross investment	210.5	2.6	8.9	10.3	-7.7	5.4	19.2	21.3	-13.4

1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

According to the preliminary estimates, real disposable personal income (DPI) increased 3.3 percent, and current-dollar DPI increased 5.7 percent; both estimates were 0.1 percentage point less than the advance estimates. Personal income and personal tax and nontax payments were revised down slightly. The preliminary estimate of the personal saving rate was 0.2 percent, the same as the advance estimate.

Corporate Profits

In the second quarter, profits from current production increased \$27.7 billion, or 3.0 percent at a

**Table 9.—Revisions to Change in Real Gross Domestic Product and Prices,
Second Quarter 2000**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Preliminary estimate minus advance estimate	
	Advance estimate	Preliminary estimate	Percentage points	Billions of chained (1996) dollars
Gross domestic product	5.2	5.3	0.1	2.7
Less: Exports of goods and services	7.3	13.5	6.2	15.5
Goods	10.3	18.9	8.6	15.3
Services .....	.2	1.0	.8	.6
Plus: Imports of goods and services	17.0	19.5	2.5	8.0
Goods	17.0	20.1	3.1	8.5
Services	17.1	16.3	-.8	-.4
Equals: Gross domestic purchases	6.5	6.3	-.2	-4.3
Less: Change in private inventories .....	.....	.....	.....	19.0
Farm .....	.....	.....	.....	0
Nonfarm .....	.....	.....	.....	18.9
Equals: Final sales to domestic purchasers	5.6	4.6	-1.0	-21.9
Personal consumption expenditures	3.0	2.9	-.1	-1.4
Durable goods	-3.9	-5.0	-1.1	-2.7
Nondurable goods	3.5	3.4	-.1	-.4
Services	4.2	4.4	.2	1.3
Fixed investment	15.3	10.9	-4.4	-17.2
Nonresidential	19.1	14.6	-4.5	-13.6
Structures	13.0	4.8	-8.2	-5.3
Equipment and software	21.0	17.8	-3.2	-7.8
Residential	3.9	0	-3.9	-3.6
Government consumption expenditures and gross investment	6.0	4.9	-1.1	-4.3
Federal	17.5	16.9	-.6	-.7
National defense	17.2	16.3	-.9	-.7
Nondefense	17.8	17.9	.1	0
State and local .....	.5	-.9	-1.4	-3.5
Addenda:				
Final sales of domestic product	4.2	3.5	-.7	-14.8
Gross domestic purchases price index	2.2	2.3	.1	.....
GDP price index	2.5	2.6	.1	.....

NOTE.—The preliminary estimates for the second quarter of 2000 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for May and June (revised), consumers' share of new-car purchases for June, average unit value for domestic new autos for June (revised), and consumers' share of new-truck purchases for June.

Nonresidential fixed investment: Construction put-in-place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for May and June (revised), manufacturers' shipments of complete civilian aircraft for May (revised) and June, and exports and imports of machinery and equipment for May (revised) and June.

Residential fixed investment: Construction put-in-place for April and May (revised) and June. Change in private inventories: Manufacturing and trade inventories for May (revised) and June.

Change in private inventories: Manufacturing and trade inventories for May (revised) and June.

Exports and imports of goods and services: Exports and imports of goods for May (revised) and June.

Government consumption expenditures and gross investment: Monthly Treasury Statement detailed data for June, Department of Defense detailed financial reports for the second quarter, and State and local government construction put-in-place for April and May (revised) and June.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for May and June (revised).

GDP prices: Detailed merchandise export and import price indexes for April through June (revised), unit-value index for petroleum imports for May (revised) and June, and housing prices for the second quarter.

quarterly rate, after increasing \$43.1 billion, or 4.8 percent, in the first quarter (table 10).¹⁵

Profits of domestic nonfinancial corporations increased \$29.8 billion (4.7 percent). An increase in the unit profits of these corporations reflected a bigger increase in unit prices than in unit costs; the real product of domestic nonfinancial corporations increased 1.4 percent (or 5.9 percent at an annual rate). Profits of domestic financial corporations decreased \$4.7 billion (2.7 percent). Profits from the rest of the world increased \$2.7 billion (2.1 percent), as receipts of earnings from foreign affiliates of U.S. corporations increased more than payments by U.S. affiliates of foreign corporations.¹⁶

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$34.5 billion after increasing \$37.7 billion.¹⁷ The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased to 74.2 percent from 74.5 percent. Over the past 10 quarters, the ratio has fluctuated between 74.1 percent and 78.1 percent.

Domestic industry profits and related measures.—Domestic industry profits increased \$30.4 billion after increasing \$35.8 billion.¹⁸ Profits of domestic nonfinancial corporations increased \$33.4 billion after increasing \$31.1 billion. Profits of manufacturing and of retail trade increased less than in the first quarter; in contrast, profits of wholesale trade and of the transportation and utilities group increased more than in the first quarter, and profits of "other nonmanufacturing" turned up. Profits of domestic financial corporations decreased \$3.0 billion after increasing \$4.6 billion.

15. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

16. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

17. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

18. Domestic industry profits are estimated as the sum of corporate profits before tax with the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-17 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

Profits before tax (PBT) increased \$21.5 billion after increasing \$50.0 billion. For the second quarter, the difference between the increase in PBT and the increase in profits from current production reflected an increase in the inventory valuation adjustment that was partly offset by a decrease in the capital consumption adjustment.¹⁹

Government Sector

The combined current surplus of the Federal Government and of State and local governments—the NIPA measure of net saving by government—increased \$4.1 billion, to \$292.0 billion, in the second quarter after increasing \$77.9 billion in the first (table 11).²⁰ The deceleration was attributable to a substantial deceleration in the Federal Gov-

ernment current surplus. The State and local government current surplus turned up.²¹

Federal

The Federal Government current surplus increased \$2.0 billion, to \$237.8 billion, in the second quarter after increasing \$92.5 billion in the first. The deceleration was accounted for by a sharp upturn in current expenditures and by a deceleration in current receipts.

Current receipts.—Federal Government current receipts increased \$42.2 billion in the second quarter after increasing \$70.9 billion in the first. The deceleration was mostly accounted for by decelerations in personal tax and nontax receipts and in corporate profits tax accruals, but decelerations in contributions for social insurance and in indirect business tax and nontax accruals also contributed.

19. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA); a negative IVA removes inventory profits, and a positive IVA removes inventory losses.

The capital consumption adjustment converts depreciation of fixed assets valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at replacement cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For more information on depreciation in the NIPA's, see Shelby W. Herman, "Fixed Assets and Consumer Durable Goods: Estimates for 1925–98," SURVEY OF CURRENT BUSINESS 80 (April 2000): 17–30.

20. Net saving equals gross saving less consumption of fixed capital (CFC); the estimates of gross saving, CFC, and net saving are shown in NIPA table 5.1.

For NIPA estimates of government current receipts, current expenditures, and the current surplus or deficit for 1998 and 1999, see NIPA tables 3.1, 3.2, and 3.3 in this issue.

21. The NIPA estimates for the government sector are based on financial statements for the Federal Government and for State and local governments, but they differ from them in several respects. For the major differences, see NIPA tables 3.18B on page 67 and 3.19 on page 68 of the April 2000 SURVEY.

Table 10.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				1999		2000	
	2000	1999		2000		III	IV	I	II
	II	III	IV	I	II				
Profits from current production	964.0	5.2	51.2	43.1	27.7	0.6	6.1	4.8	3.0
Domestic industries	832.4	–.7	42.6	34.7	25.0	–.1	5.8	4.5	3.1
Financial	169.9	6.2	19.7	4.0	–4.7	4.3	13.1	2.3	–2.7
Nonfinancial	662.6	–6.9	22.9	30.8	29.8	–1.2	3.9	5.1	4.7
Rest of the world	131.6	5.9	8.6	8.4	2.7	5.6	7.6	7.0	2.1
Receipts (inflows)	206.0	12.0	5.3	13.1	11.2	7.3	3.0	7.2	5.7
Payments (outflows)	74.4	6.0	–3.3	4.8	8.4	10.3	–5.2	7.8	12.8
IVA	–13.4	–10.8	.5	–5.8	11.6	.....	.....	.....	.....
CCAdj	35.2	1.5	–1.1	–1.0	–5.4	.....	.....	.....	.....
Profits before tax	942.2	14.5	51.7	50.0	21.5	1.8	6.3	5.7	2.3
Profits tax liability	292.9	3.4	16.6	15.5	6.6	1.3	6.6	5.7	2.3
Profits after tax	649.3	11.1	35.1	34.5	14.9	2.0	6.2	5.7	2.4
Cash flow from current production	1,008.7	12.3	34.8	37.7	34.5	1.4	3.9	4.0	3.5
Domestic industry profits:									
Corporate profits of domestic industries with IVA	797.2	–2.2	43.6	35.8	30.4	–.3	6.3	4.9	4.0
Financial	188.9	6.7	20.1	4.6	–3.0	4.2	12.0	2.5	–1.6
Nonfinancial	608.3	–9.0	23.6	31.1	33.4	–1.7	4.5	5.7	5.8
	Dollars								
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.022	–0.002	0.001	0.005	0.006	.....	.....	.....	.....
Unit labor cost .....	.653	0	–.003	0	.001	.....	.....	.....	.....
Unit nonlabor cost .....	.244	.002	.002	.001	.001	.....	.....	.....	.....
Unit profits from current production .....	.125	–.004	.002	.004	.004	.....	.....	.....	.....

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA inventory valuation adjustment
CCAdj Capital consumption adjustment

Personal tax and nontax receipts increased \$25.3 billion after increasing \$39.8 billion. Receipts from income taxes increased \$25.1 billion after increasing \$39.8 billion. The deceleration was more than accounted for by “estimated income tax payments and final settlements, less refunds,” which increased \$4.6 billion after increasing \$20.1

Table 11.—Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level		Change from preceding quarter			
	2000		1999		2000	
	II	II	III	IV	I	II
Current Receipts	3028.9	42.7	57.5	83.2	83.0	56.1
Current expenditures	2736.8	24.9	18.4	67.8	5.1	51.9
Current surplus or deficit(–)	292.0	17.9	39.2	15.3	77.9	4.1
Social insurance funds	102.8	7.3	8.6	8.4	3.4	–3.3
Other	189.2	10.5	30.7	6.8	74.6	7.4
Federal Government						
Current receipts	2054.1	32.2	40.7	50.7	70.9	42.2
Personal tax and nontax receipts	1003.3	19.8	25.2	24.5	39.8	25.3
Corporate profits tax accruals	251.3	2.6	2.9	14.5	13.4	5.6
Indirect business tax and nontax accruals	108.5	1.0	2.5	2.5	2.9	1.7
Contributions for social insurance	691.0	8.8	10.0	9.2	14.9	9.5
Current expenditures	1816.2	4.4	10.9	54.6	–21.7	40.2
Consumption expenditures	499.1	–4.3	11.1	15.7	–8.3	20.4
National defense	325.5	–3.5	10.0	12.5	–13.5	14.3
Nondefense	173.6	–0.8	1.1	3.2	5.2	6.1
Transfer payments (net)	779.2	4.2	2.2	12.7	5.5	16.0
To persons	769.9	2.6	3.0	2.9	16.1	15.0
To the rest of the world	9.3	1.7	–0.9	9.8	–10.6	1.0
Grants-in-aid to State and local governments	240.9	–1.6	12.6	4.8	–3.8	5.9
Net interest paid	262.0	–0.6	–4.9	–0.4	3.2	–3.0
Subsidies less current surplus of government enterprises	35.0	6.8	–10.2	21.8	–18.2	0.9
Subsidies	41.4	7.3	–9.8	22.4	–16.9	1.1
Of which: Agricultural subsidies	18.6	7.1	–9.9	22.5	–16.8	1.1
Less: Current surplus of government enterprises	6.5	0.5	0.4	0.6	1.3	0.3
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	237.8	27.8	29.8	–4.0	92.5	2.0
Social insurance funds	103.3	7.5	8.7	8.5	3.3	–3.3
Other	134.6	20.3	21.1	–12.5	89.3	5.3
State and local governments						
Current receipts	1215.7	8.9	29.5	37.3	8.3	19.8
Personal tax and nontax receipts	268.3	0.4	5.4	8.9	2.2	6.9
Corporate profits tax accruals	41.6	0.4	0.4	2.2	2.1	1.0
Indirect business tax and nontax accruals	655.0	9.8	11.1	21.4	7.6	5.8
Contributions for social insurance	9.9	0	–0.1	0	0.2	0.2
Federal grants-in-aid	240.9	–1.6	12.6	4.8	–3.8	5.9
Current expenditures	1161.6	18.9	20.0	18.1	22.9	17.7
Consumption expenditures	911.3	15.1	15.9	14.3	20.1	13.8
Transfer payments to persons	265.6	4.3	4.8	4.0	3.1	4.0
Net interest paid	–4.5	–0.6	–0.6	–0.3	–0.6	–0.3
Less: Dividends received by government	0.4	0	0	0	0	0
Subsidies less current surplus of government enterprises	–10.4	0	0	0.1	0.3	0.2
Subsidies	0.5	0.1	0	0	0	0
Less: Current surplus of government enterprises	10.9	0	0	0	–0.3	–0.2
Less: Wage accruals less disbursements	0	0	0	0	0	0
Current surplus or deficit (–)	54.2	–9.9	9.4	19.2	–14.6	2.2
Social insurance funds	–0.4	–0.2	–0.1	–0.1	0.1	0.1
Other	54.6	–9.8	9.6	19.3	–14.7	2.1
Addendum: Net lending or net borrowing¹						
Net lending or net borrowing (–)	202.9	16.5	36.4	5.9	70.3	10.9
Federal government	224.1	16.3	27.0	–4.1	92.7	–0.2
State and local government	–21.2	0.2	9.4	10.0	–22.4	11.1

1. “Net lending or borrowing” is conceptually similar to “net financial investment” in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government’s railroad retirement and veterans life insurance programs.

billion; first-quarter tax payments were boosted \$13.7 billion (net) by projected annual levels of final settlements and of refunds for 2000—both of which are held constant for the year. In contrast, withheld income taxes accelerated.

Corporate profits tax accruals increased \$5.6 billion after increasing \$13.4 billion. The deceleration reflected a deceleration in domestic corporate profits before tax.

Contributions for social insurance increased \$9.5 billion after increasing \$14.9 billion. The deceleration primarily reflected a deceleration in contributions for social security (old-age, survivors, disability, and health insurance), which increased \$9.2 billion after increasing \$13.5 billion; contributions in the first quarter were boosted by an increase in the social security taxable wage base.

Indirect business tax and nontax accruals increased \$1.7 billion after increasing \$2.9 billion.

Current expenditures.—Current expenditures increased \$40.2 billion in the second quarter after decreasing \$21.7 billion in the first. The upturn was accounted for by upturns in consumption expenditures, in “subsidies less current surplus of government enterprises,” and in grants-in-aid to State and local governments and by an acceleration in “transfer payments (net).” In contrast, net interest paid turned down.

Consumption expenditures increased \$20.4 billion after decreasing \$8.3 billion. The upturn was mostly accounted for by defense consumption expenditures, which increased \$14.3 billion after decreasing \$13.5 billion; the turnaround was more than accounted for by an upturn in “other” services.²² Nondefense consumption expenditures increased \$6.1 billion after increasing \$5.2 billion; the acceleration was primarily accounted for by an upturn in “other” services.

“Subsidies less current surplus of government enterprises” increased \$0.9 billion after decreasing \$18.2 billion. The upturn was accounted for by agricultural subsidies, which increased \$1.1 billion after decreasing \$16.8 billion; the first-quarter decrease followed large special payments to farmers in the fourth quarter for drought-related losses.

“Transfer payments (net)” increased \$16.0 billion after increasing \$5.5 billion. The acceleration was accounted for by an upturn in transfer payments to the rest of the world, which increased

22. “Other” services includes services for research and development, for installation support, and for personnel support.

\$1.0 billion after decreasing \$10.6 billion; the first-quarter decrease followed a large fourth-quarter increase that included the annual payment of \$2.4 billion (\$9.6 billion at an annual rate) to Israel for economic support. Transfer payments to persons increased \$15.0 billion after increasing \$16.1 billion; the deceleration was more than accounted for by a downturn in benefit payments for supplemental security income and by a deceleration in payments for veterans pensions; first-quarter payments were boosted by a 2.4-percent cost-of-living adjustment in January. Benefit payments for social security (old-age, survivors and disability insurance) increased \$12.4 billion in the second quarter after increasing \$11.0 billion in the first. The second-quarter increase included benefit payments of \$9.2 billion (annual rate) that resulted from the new Senior Citizens' Freedom to Work Act of 2000.²³ The first-quarter increase was boosted \$9.2 billion by a 2.4-percent cost-of-living adjustment.

Grants-in-aid to State and local governments increased \$5.9 billion after decreasing \$3.8 billion. The upturn was mostly attributable to upturns in grants for welfare and social services, for education, for medicaid, and for civilian safety.

Net interest paid decreased \$3.0 billion after increasing \$3.2 billion. The downturn was accounted for by a downturn in interest paid to persons and business and by a deceleration in interest paid to the rest of the world.

State and local

The State and local government current surplus increased \$2.2 billion, to \$54.2 billion, in the second quarter after decreasing \$14.6 billion in the first. The upturn was accounted for by an acceleration in current receipts and a deceleration in current expenditures.

Current receipts.—State and local government current receipts increased \$19.8 billion after increasing \$8.3 billion. The acceleration was primarily accounted for by an upturn in Federal grants-in-aid and an acceleration in personal tax and nontax receipts that were partly offset by decelerations in indirect business tax and nontax accruals and in corporate profits tax accruals.

Federal grants-in-aid increased \$5.9 billion after decreasing \$3.8 billion. The upturn was mostly

attributable to upturns in grants for “welfare and social services,” for education, for medicaid, and for civilian safety.

Personal tax and nontax receipts increased \$6.9 billion after increasing \$2.2 billion. The acceleration was accounted for by personal income taxes, which increased \$6.2 billion after increasing \$1.4 billion; the acceleration in personal income taxes was attributable to a deceleration in refunds.

Indirect business tax and nontax accruals increased \$5.8 billion after increasing \$7.6 billion. The deceleration was accounted for by sales taxes, which increased \$2.1 billion after increasing \$9.1 billion; within sales taxes, general sales taxes decelerated, reflecting a slowdown in general retail sales.

Corporate profits tax accruals increased \$1.0 billion after increasing \$2.1 billion. The deceleration reflected a deceleration in domestic corporate profits before tax.


Current expenditures.—Current expenditures increased \$17.7 billion after increasing \$22.9 billion. The deceleration was more than accounted for by a deceleration in consumption expenditures.

Consumption expenditures increased \$13.8 billion after increasing \$20.1 billion. The deceleration was more than accounted for by nondurable goods, which increased \$2.6 billion after increasing \$7.7 billion; within nondurable goods, spending for petroleum products decelerated.

Net lending or net borrowing

“Net lending or net borrowing(-),” an alternative measure of the Government fiscal position, is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Net lending increased \$10.9 billion after increasing \$70.3 billion. The deceleration was attributable to a downturn in Federal Government net lending, reflecting a substantial deceleration in the Federal Government current surplus. State and local government net borrowing turned around.

Gross investment decreased \$1.6 billion after increasing \$9.9 billion.²⁴ The downturn was attributable to State and local government gross investment, which decreased \$5.7 billion after increasing \$13.1 billion, reflecting a downturn in structures. 

23. This act—which was signed into law April 7, 2000, and was effective retroactive to January 1, 2000—eliminated the “retirement earnings test” and allowed social security beneficiaries aged 65 and older to receive full benefits regardless of their earnings. Previously, benefits had been reduced \$1 for every \$3 earned over the annual earning limit, which was \$17,000 for 2000.

24. For NIPA estimates of government gross investment, see NIPA table 3.7 in this issue.